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TAGS: EINV ENRG EPET PGOV YM

SUBJECT: RESOURCE NATIONALISM STILL PREVALENT IN YEMEN

REF: A. SECSTATE 150999

- 1B. SANAA 1210
- 1C. SANAA 1347
- 1D. SANAA 2055
- 1E. SANAA 1138

Classified By: Ambassador Stephen A. Seche, for reasons 1.4(b)
and (d)

11. (S) SUMMARY: Resource nationalism is predominant in Yemen's oil and gas industry, and is particularly noticeable in the October 2005 ROYG expropriation of the Jannah Hunt Oil Company from the Marib Block 18 oil field. Other examples of resource nationalism are the ROYG requirement that 90 percent of oil companies' workforces must be Yemeni and the frequent tribal attacks against oil companies in order to secure greater monetary wealth and jobs. Despite these persistent problems, Post believes that there has not been a dramatic increase in resource nationalist activity in 2007 compared to 12006. Post will continue to warn American investors, however, of the risks of doing business in Yemen. END SUMMARY.

HUNT OIL- A PRIME EXAMPLE OF YEMENI RESOURCE NATIONALISM

12. (C) Resource nationalism has occurred in Yemen, primarily in the oil and gas sector, which comprises 70-80 percent of the national budget. The most prominent example of resource nationalism is the Jannah Hunt Oil Company court case concerning the Marib Block 18 oil field (reftel B). In a May 28 meeting with Econoff, Jannah Hunt Oil General Manager Michael Graham claimed that both the ROYG and Hunt Oil Company signed a 5-year extension of the production sharing agreement (PSA) in 2005, and that the Minister of Oil endorsed the agreement. However, the Yemeni Parliament "did not like the agreement and wanted Hunt Oil out of Block 18," he said. (Note: All PSAs in Yemen legally require Parliamentary approval. End note). The Cabinet of then-PM Bajammal terminated the new PSA on October 18, 2005 and handed Block 18 over to the ROYG-owned Safir Company. Graham later told Econoff that Jannah Hunt Oil is suing the ROYG for lost revenues and that hearings took place in October 2007 at the International Commercial Court in Paris, which will rule on the case sometime in 2008. Graham expects Jannah Hunt Oil to win the lawsuit and that the ROYG may even settle before the court's ruling. If the ICC rules in Jannah Hunt Oil's favor and the ROYG ignores its ruling and exports Block 18 oil, the oil/profits could be confiscated at the importing countries' ports and turned over to Jannah Hunt Oil, according to Graham.

90 PERCENT OF OIL COMPANY WORKFORCE
MUST BE YEMENI

¶ 13. (C) Resource nationalism is also demonstrated in the ROYG policy that at least 90 percent of the oil companies' workforce must be Yemeni. During a 2006 Extractive Industry Transparency Initiative (EITI) Conference in Oslo, ROYG Minister of Oil and Mineral Resources Khaled al-Baheh renewed ROYG's commitment to make 90 percent of the oil sector workforce Yemeni. According to an October 3 report on Al-Sahwa.net, the number of Yemenis working in oil exploration and production companies increased from 11,735 in the first half of 2006 to 14,035 in the first half of 2007. The ninety-percent Yemeni requirement has been a burden on oil companies. For example, Canadian Nexen President Alistair Mooney complained to Econoff on June 2 that his workforce was only 83 percent Yemeni, due to the challenge of finding skilled Yemeni labor. Even companies who have already achieved the goal of 90 percent face pressures to "Yemenize more." On June 5, the Jannah Hunt Oil Contract Manager, Jill Toffelson, an Amcit, said that one Yemeni tried to force her to hire another Yemeni for a contract and that if he had his way, "she would be replaced by a Yemeni." Jannah Hunt Oil management believes that Toffelson may be the next employee to be "Yemenized" in the near future. Oil companies continue to face pressure to hire Yemeni family members for subcontracts.

TRIBES TRY TO EXTORT MORE MONEY
FROM OIL COMPANIES

¶ 14. (S) When talking about resource nationalism in Yemen, one cannot ignore the tribal element. During the period of December 2006-July 2007, of the 35 reported incidents of tribal violence in Shabwa, Marib and al-Jawf governorates, 12 involved oil companies or contractors to oil companies (reftel C). Individuals regularly shot at or blockaded oil and gas-related installations demanding jobs and other benefits. (Note: In these three governorates, unemployment and poverty are higher than the reported national average. These areas have no significant commercial or industrial centers except oil and gas facilities. End note). Tribes, Governors and security forces all depend on extracting wealth from oil and gas ventures. Occidental Petroleum Company Vice President and General Manager Donald Lipinski in a June 4 interview with Econoff described difficulties in doing business in Shabwa. He said government bureaucracy, security elements, tribes and workers continue to press for more money. In one case, Occidental Petroleum doubled worker's wages only to be pressed for additional pay increases. The latest case of tribal violence occurred during a November 5 oil pipeline explosion in the Watada area, southwest of Sirwah District in the area bordering al-Kholan and al-Bida tribal areas in the Marib Governorate (reftel D). The explosion shut down for two days the pipeline between Marib Block 18 oil pumping station and the Ras Issa terminal on the Red Sea. Some sources believe that the al-Bida tribe was behind the explosion.

¶ 15. (C) COMMENT: In Post's opinion, the number of "resource nationalism" actions in the oil and gas sectors has not significantly increased in Yemen in 2007 compared to 2006. Tribal attacks aimed to extorting money and jobs from oil companies have been a persistent problem, and will not go away any time soon. The ninety-percent Yemenization requirement has always been a staple of ROYG policy in the oil and gas industry. Current ROYG Oil Minister Khaled al-Baheh has a strong reputation for reform-mindedness, transparency and professionalism (reftel E). In March 2007, Yemen decided to join the Extractive Industry Transparency Initiative (EITI) in an effort to attract greater foreign investment in the oil and gas industry. Increased "resource nationalism" policies will scare away foreign investment, which is what the ROYG wants to avoid.

¶ 16. (C) COMMENT CONTINUED: The US Embassy continues to make Americans and American interests aware of the risks of operating in Yemen, which continues to be a difficult place

to do business, especially from a corruption/transparency perspective. The Embassy disseminates updated information about developments in the oil and gas industry, through the annual Country Commercial Guide, Investment Climate Statement and Report on Investment Disputes and Expropriation Claims, which is made available not only to USG officials, but to several businesspeople as well. Post will continue to monitor developments on the ground and emphasize to ROYG officials the importance of abandoning "resource nationalist" policies if they hope to attract greater foreign direct investment and foreign assistance in the future. END COMMENT

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